

**ELLSWORTH TOWNSHIP, LAKE COUNTY**

**LUTHER, MICHIGAN**

**MARCH 31, 2008**

*Baird, Cotter and Bishop, P.C.*

**CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

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ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

MARCH 31, 2008

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# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
PHONE: 231-775-9789 FAX: 231-775-9749  
www.bcbcpa.com

June 30, 2008

### INDEPENDENT AUDITORS' REPORT

To the Township Board  
Ellsworth Township  
Lake County  
Luther, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ellsworth Township, Lake County, Luther, Michigan as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Ellsworth Township, Lake County, Luther, Michigan as of March 31, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on page 19 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ellsworth Township, Lake County, Luther, Michigan's basic financial statements. The individual fund financial statements are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

Ellsworth Township, a general law township located in Lake County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Ellsworth Township board's discussion and analysis of the financial results for the fiscal year ended March 31, 2008.

**Financial Highlights**

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$270,496. Of this amount, \$194,118 may be used to meet the Township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$247,489.
- ◆ The Township is not obligated under any long-term debt as of March 31, 2008.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements** The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include general government and administration, public safety, public works, and other functions. The Township does not have any business-type activities.

ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

**Fund Financial Statements**

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

***Governmental Funds*** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

***Proprietary Funds*** – Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township does not maintain any proprietary funds.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information**

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

**Government-Wide Financial Analysis**

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township’s financial position over time. The Net Assets of the Township were \$270,496 at March 31, 2008, meaning the Township’s assets were greater than its liabilities by this amount.

ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

**Ellsworth Township**  
**Net Assets as of March 31, 2008**

**Assets**

Current Assets	\$ 250,702
Non Current Assets	
Capital Assets	38,940
Less: Accumulated Depreciation	<u>(15,933)</u>
Total Non Current Assets	<u>23,007</u>
<b>Total Assets</b>	<b><u><u>\$ 273,709</u></u></b>

**Liabilities**

Current Liabilities	<u>\$ 3,213</u>
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**Net Assets**

Invested in Capital Assets	23,007
Restricted for Specific Purposes	53,371
Unrestricted	<u>194,118</u>
<b>Total Net Assets</b>	<u>270,496</u>
<b>Total Liabilities and Net Assets</b>	<b><u><u>\$ 273,709</u></u></b>

The most significant portions of the Township's Net Assets are cash and investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others). The Township is not responsible for any long-term debt as of March 31, 2008. Other liabilities are minimal as of March 31, 2008.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets for the government as a whole.

The total net assets of the Township increased by \$25,918 in this fiscal year, which is an indicator that the Township experienced positive financial growth during the year. As a result, the Township ended the fiscal year in better condition than when the year began.

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

**Ellsworth Township**  
**Change in Net Assets**  
**For The Fiscal Year Ended March 31, 2008**

	<b>Governmental Activities</b>
<b><u>Revenues</u></b>	
<b>Program Revenues</b>	
Charges for Services	\$ 3,048
<b>General Revenues</b>	
Taxes	87,037
State Grants	51,192
Interest Earnings	10,210
Other	1,107
<b>Total Revenues</b>	<u>152,594</u>
<b><u>Expenses</u></b>	
Legislative	5,574
General Government	72,401
Public Safety	43,038
Public Works	2,000
Other Functions	3,663
<b>Total Expenses</b>	<u>126,676</u>
Change in Net Assets	25,918
<b><u>NET ASSETS</u></b> - Beginning of Year	<u>244,578</u>
<b><u>NET ASSETS</u></b> - End of Year	<u>\$ 270,496</u>

**Governmental Activities**

During the fiscal year ended March 31, 2008, the Township's net assets increased by \$25,918. GASB 34 now requires the Township to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

A significant portion of the revenue for all governmental activities of Ellsworth Township comes from property taxes. The Township levied .8008 mills for operating purposes, 2.0029 mills for fire protection and .8808 mills for fire equipment.



ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax.

The Township's governmental activities expenses are dominated by general government expenses. The Township spent \$72,401 in fiscal year 2008 on general government expenses. Public Safety represented the next largest expense at \$43,038.

**Financial Analysis of the Government's Funds**

***Governmental Funds*** The focus of Ellsworth Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, Ellsworth Township's governmental funds reported combined ending fund balances of \$247,489. Approximately \$193,618 constitutes unreserved fund balance. The remainder of the fund balance is reserved for specific purposes and is therefore not available for new appropriation. For example, the fund balance that is reserved for road maintenance must be used for expenditures that relate to road maintenance.

**General Fund** – The General Fund increased its fund balance by \$3,168 which brings the fund balance to \$199,277. The General Fund's fund balance is unreserved. All of the General Fund's functions ended the year with expenditures below budgeted amounts. Taxes amounted to \$26,564. State grants were collected in the amount of \$51,192.

**Fire Fund** – The Fire Fund decreased its fund balance by \$280, which brings the fund balance to \$120. The balance is reserved and must be used for fire protection. Taxes collected amounted to \$42,003.

**Fire Equipment Fund** – The Fire Equipment Fund increased its fund balance by \$19,919, which brings the fund balance to \$48,092. Taxes collected amounted to \$18,470.

**Capital Assets and Debt Administration**

**Capital Assets.** The Township's investment in capital assets for governmental activities as of March 31, 2008, amounted to \$23,007 net of accumulated depreciation.

Capital assets summarized below include any items purchased with a cost greater than \$2,000 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

**Ellsworth Township**  
**Capital Assets as of March 31, 2008**

	<b>Governmental Activities</b>
Land	\$ 6,617
Building Improvements	18,723
Equipment	<u>13,600</u>
	38,940
Less: Accumulated Depreciation	<u>15,933</u>
<b>Net Capital Assets</b>	<u><u>\$ 23,007</u></u>

The Township purchased a new furnace during the fiscal year at a cost of \$4,885.

**Long-Term Debt.** Ellsworth Township has no obligation for any long-term debt as of March 31, 2008.

**Economic Condition and Outlook**

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential further reductions in state-shared revenues

These factors were considered in preparing the Township's budgets for the 2008-09 fiscal year.

**Request for Information**

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Ellsworth Township at 210 State Street, Luther, Michigan 49656.

ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

STATEMENT OF NET ASSETS  
MARCH 31, 2008

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 224,255
Receivables:	
Taxes	11,017
Other Receivables	500
External Parties (Fiduciary Fund)	1,961
Due from Other Governments	12,469
Prepaid Expenditures	500
	<hr/>
Total Current Assets	250,702
	<hr/>
<u>CAPITAL ASSETS</u>	
Land	6,617
Building Improvements	18,723
Equipment	13,600
	<hr/>
	38,940
Less Accumulated Depreciation	15,933
Net Capital Assets	23,007
	<hr/>
TOTAL ASSETS	273,709
	<hr/>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Payroll Taxes and Withholdings	605
Accounts Payable	2,608
	<hr/>
Total Current Liabilities	3,213
	<hr/>
<u>NET ASSETS</u>	
Invested in Capital Assets	23,007
Restricted for Fire Protection	120
Restricted for Fire Equipment	48,092
Restricted for Telecommunications Right-Of-Way	2,925
Restricted for Cemetery Perpetual Care	2,234
Unrestricted	194,118
	<hr/>
TOTAL NET ASSETS	\$ 270,496
	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements.

ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2008

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSES)
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	REVENUES AND CHANGE IN NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>					
Legislative	\$ 5,574	\$ 0	\$ 0	\$ 0	\$ (5,574)
General Government	72,401	3,048	0	0	(69,353)
Public Safety	43,038	0	0	0	(43,038)
Public Works	2,000	0	0	0	(2,000)
Other Functions	3,663	0	0	0	(3,663)
Total Governmental Activities	<u>\$ 126,676</u>	<u>\$ 3,048</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>(123,628)</u>
<u>GENERAL REVENUES</u>					
Taxes					87,037
State Grants					51,192
Interest Earnings					10,210
Other					1,107
Total General Revenues					<u>149,546</u>
Change in Net Assets					25,918
<u>NET ASSETS</u> - Beginning of Year					<u>244,578</u>
<u>NET ASSETS</u> - End of Year					<u>\$ 270,496</u>

The accompanying notes are an integral part of the financial statements.

ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET  
MARCH 31, 2008

	GENERAL FUND	FIRE FUND	FIRE EQUIPMENT FUND	TOTALS
<u>ASSETS</u>				
Cash	\$ 176,043	\$ 120	\$ 48,092	\$ 224,255
Taxes Receivable	11,017	0	0	11,017
Accounts Receivable	500	0	0	500
Due from Other Governments	12,469	0	0	12,469
Due from Other Funds	1,961	0	0	1,961
Prepaid Expenditures	500	0	0	500
Total Assets	<u>\$ 202,490</u>	<u>\$ 120</u>	<u>\$ 48,092</u>	<u>\$ 250,702</u>
<u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Payroll Taxes and Withholdings	\$ 605	\$ 0	\$ 0	\$ 605
Accounts Payable	2,608	0	0	2,608
Total Liabilities	<u>3,213</u>	<u>0</u>	<u>0</u>	<u>3,213</u>
<u>FUND BALANCE</u>				
Reserved for:				
Prepaid Expenditures	500	0	0	500
Fire Protection	0	120	0	120
Fire Equipment	0	0	48,092	48,092
Telecommunications Right-Of-Way	2,925	0	0	2,925
Cemetery Perpetual Care	2,234	0	0	2,234
Unreserved				
Undesignated	193,618	0	0	193,618
Total Fund Balance	<u>199,277</u>	<u>120</u>	<u>48,092</u>	<u>247,489</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 202,490</u>	<u>\$ 120</u>	<u>\$ 48,092</u>	<u>\$ 250,702</u>

The accompanying notes are an integral part of the financial statements.

ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
MARCH 31, 2008

Total Fund Balances for Governmental Funds	\$ 247,489
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Amounts Reported for Governmental Activities in the  
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported in the funds.

Land	\$ 6,617	
Building Improvements	18,723	
Equipment	13,600	
Accumulated Depreciation	<u>(15,933)</u>	<u>23,007</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 270,496</u>
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The accompanying notes are an integral part of the financial statements.

ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2008

	GENERAL FUND	FIRE FUND	FIRE EQUIPMENT FUND	TOTALS
<u>REVENUES</u>				
Taxes	\$ 26,564	\$ 42,003	\$ 18,470	\$ 87,037
State Grants	51,192	0	0	51,192
Charges for Services	3,048	0	0	3,048
Interest and Rents	8,739	22	1,449	10,210
Other Revenues	1,107	0	0	1,107
Total Revenues	90,650	42,025	19,919	152,594
<u>EXPENDITURES</u>				
Legislative	5,574	0	0	5,574
General Government	75,512	0	0	75,512
Public Safety	0	43,038	0	43,038
Public Works	2,000	0	0	2,000
Other Functions	3,663	0	0	3,663
Total Expenditures	86,749	43,038	0	129,787
Excess (Deficiency) of Revenues Over Expenditures	3,901	(1,013)	19,919	22,807
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	0	733	0	733
Transfers Out	(733)	0	0	(733)
Total Other Financing Sources (Uses)	(733)	733	0	0
Net Change in Fund Balance	3,168	(280)	19,919	22,807
<u>FUND BALANCE</u> - Beginning of Year	196,109	400	28,173	224,682
<u>FUND BALANCE</u> - End of Year	\$ 199,277	\$ 120	\$ 48,092	\$ 247,489

The accompanying notes are an integral part of the financial statements.

ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
MARCH 31, 2008

Net Change in Fund Balance - Total Governmental Funds	\$ 22,807
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlay as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.	
Capital Outlay	4,885
Depreciation Expense	<u>(1,774)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 25,918</u></u>

The accompanying notes are an integral part of the financial statements.



ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS  
MARCH 31, 2008

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	<u>\$          2,023</u>
 <u>LIABILITIES</u>	
Due to General Fund	1,961
Due to Other Organizations and Individuals	<u>62</u>
Total Liabilities	<u>\$          2,023</u>

The accompanying notes are an integral part of the financial statements.

ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

Ellsworth Township is a general law township located in Lake County which operates under the direction of an elected township board. Under the criteria established by generally accepted accounting principles, the Township has determined that there are no component units which should be included in its reporting entity.

**B. Government-wide and Fund Financial Statements**

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

*Invested in Capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets which do not meet the definition of the two preceding categories

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivables due within the current period is considered to be susceptible to accrual as revenue of the current period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Ellsworth Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Fire Fund* accounts for revenue sources that are legally restricted to expenditure for fire protection.

The *Fire Equipment Fund* accounts for revenue sources that are legally restricted to expenditures for fire equipment.

Additionally, Ellsworth Township reports the following fund types:

*Agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use the restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities and Equity**

***1. Deposits and Investments***

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

(I) The Township has authorized the Treasurer to invest funds as follows:

- (a) In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (II).
- (c) In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- (d) In repurchase agreements consisting of instruments listed in subdivision (a).
- (e) In bankers' acceptances of United States banks.
- (f) In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
- (g) Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
  - (i) The purchase of securities on a when-issued or delayed delivery basis.

ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

- (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
- (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- (h) In obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- (i) In investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.11 to 129.118.
- (j) In the investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.
- (II) A public corporation that invests its funds under subsection (I) shall not deposit or invest the funds in a financial institution that is not eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- (III) Assets acceptable for pledging to secure deposits of public funds are limited to assets authorized for direct investment under subsection (I).
- (IV) As used in this section, "financial institution" means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.

**2. *Receivables and Payables***

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and county taxes are levied and due July 1, and become delinquent after September 15. The

ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
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remaining millages are levied and due December 1, and become delinquent after February 14. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2007 taxable valuation of Ellsworth Township totaled \$20,993,988, on which ad valorem taxes levied consisted of .8008 mills for Ellsworth Township operating purposes, 2.0029 mills for fire and .8808 mills for fire equipment. The levy raised approximately \$16,793 for operating purposes, \$43,680 for fire protection and \$18,470 for fire equipment.

**3. *Inventories and Prepaid Items***

Inventories are not significant and are expensed as acquired. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**4. *Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government, are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building improvements	20
Infrastructure	50
Vehicles	10
Equipment	5-10

Ellsworth Township qualifies as a phase 3 governmental unit in regards to the implementation of GASB 34. Phase 3 governmental units are not required to retroactively capitalize infrastructure. As a result, the Township began to capitalize and depreciate infrastructure beginning April 1, 2004, in accordance with the Township's capitalization policy.

ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**5. *Long-term Obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The Township currently has no long-term obligations.

**6. *Fund Equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**7. *Use of Estimates***

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. *Budgetary Information***

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act". A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budget amounts are as originally adopted on March 26, 2007, or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The Township's deposits are on deposit with Lake Osceola State Bank in Luther, Michigan.

*Investment rate risk.* The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

*Foreign currency risk.* The Township is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Township's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Township will do business in accordance with the Township's investment policy.

*Concentration of credit risk.* The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2008, \$74,240 of the government's bank balance of \$235,176 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At year end, the Township held no investments.



ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**B. Receivables**

Receivables as of year end for the government's individual major funds are shown on the statement of net assets.

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the fiscal year, the Township did not have any deferred revenue.

**C. Capital Assets**

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Land	\$ 6,617	\$ 0	\$ 0	\$ 6,617
Capital assets, being depreciated				
Building Improvements	13,838	4,885	0	18,723
Equipment	13,600	0	0	13,600
Total capital assets, being depreciated	27,438	4,885	0	32,323
Less accumulated depreciation for:				
Building Improvements	8,879	814	0	9,693
Equipment	5,280	960	0	6,240
Total accumulated depreciation	14,159	1,774	0	15,933
Total capital assets, being depreciated, net	13,279	3,111	0	16,390
Governmental activities capital assets, net	\$ 19,896	\$ 3,111	\$ 0	\$ 23,007

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General Government	<u>\$ 1,774</u>
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ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

Construction Commitments:

The government has no outstanding construction commitments as of March 31, 2008.

**D. Interfund Receivables, Payables and Transfers**

Individual fund interfund receivable and payable balances at March 31, 2008, were:

<u>Fund</u>	<u>INTERFUND RECEIVABLES DUE FROM'S</u>	<u>INTERFUND PAYABLES DUE TO'S</u>
General Fund		
Current Tax	\$ 1,961	\$ 0
Current Tax		
General Fund	0	1,961
Total	<u>\$ 1,961</u>	<u>\$ 1,961</u>

**E. Long-Term Debt**

At March 31, 2008, the Township was not obligated for any long-term debt.

**IV. OTHER INFORMATION**

**A. Risk Management**

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, workers compensation insurance and errors and omissions insurance. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

**B. Retirement Plan**

The Township has a defined contribution pension plan with Manufacturers Life Insurance Company which covers all full-time employees. The annual contribution is 10% of full-time employee's compensation of which 5% is paid by the Township and 5% by the official. The Township's 2007-2008 contribution amounted to \$1,984 and participants contributed \$1,984. In addition, the Township paid \$732 in charges and participant fees.

ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

To participate in the plan, an individual must be at least 18 years of age. Benefits attributable to the Township are vested in the participant's immediately.

Normal retirement age under the plan is 65 or, if later, completion of 10 years of participation in the Plan.

For purposes of this plan, compensation means the basic annual rate of compensation in effect at the beginning of each plan year. For the 2007-2008 year, covered compensation was \$39,680 and total of all wages including noncovered wages was \$47,343.

**C. Property Tax Administration Fee**

The Township passed a resolution on July 14, 1983, to charge a 1% administration fee on all ad valorem taxes levied after this date. Also, a late penalty fee of 3% shall be added after February 14th and shall terminate on the last day of February. The resolution is to continue in force and effect until revoked by the Township board.

The Township has determined that authorized costs of tax collection will be repeatedly in excess of the revenue generated by the administration fee so that a restricted earnings account is not reflected in these statements.

**D. Cemetery Perpetual Care**

Of the \$2,234 reserve for Cemetery Perpetual Care, \$2,000 was donated to the Township for perpetual care. Only the interest earnings on this amount can be used for cemetery upkeep which amounts to \$234.

**E. Joint Fire District**

The Township is a member of the Luther Fire District #1. The Fire District is a joint venture of Ellsworth and Newkirk Townships created to provide fire protection for the member townships. Ellsworth Township levied 2.8837 mills to support the Fire District. The following financial information was taken from the Fire District's March 31, 2007, audited financial statements:

Total Assets	\$ 345,364
Investment in Capital Assets	307,635
Fund Balance- Unreserved	13,907
Total Revenues	80,732
Total Expenditures	80,211
Net Increase (Decrease) in Fund Balance	521

ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**F. Sale of Future Revenues**

For several years, the Township has sold its rights to delinquent real property tax revenues and related late payment penalties to the Lake County treasurer. For the 2007 tax roll, the Township received a lump sum payment of \$16,793 for general operating revenues, \$43,680 for fire operating revenues and \$18,470 for fire equipment revenues. These amounts represent 100% of the present value of delinquent real property tax revenues. In exchange for these payments, the county is allowed to keep the delinquent taxes collected plus the late payment penalties charged. If the county is ultimately unable to collect any of these delinquent taxes, the Township will have to repay the county.

ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2008

	GENERAL FUND			FIRE FUND			FIRE EQUIPMENT FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>									
Taxes	\$ 22,873	\$ 22,873	\$ 26,564	\$ 43,038	\$ 43,038	\$ 42,003	\$ 18,470	\$ 18,470	\$ 18,470
State Grants	35,000	35,000	51,192	0	0	0	0	0	0
Charges for Services	4,000	4,000	3,048	0	0	0	0	0	0
Interest and Rents	3,100	3,100	8,739	0	0	22	0	0	1,449
Other Revenues	0	0	1,107	0	0	0	0	0	0
Total Revenues	64,973	64,973	90,650	43,038	43,038	42,025	18,470	18,470	19,919
<u>EXPENDITURES</u>									
Legislative									
Township Board	27,385	27,385	5,574	0	0	0	0	0	0
General Government									
Supervisor	10,170	10,170	8,122	0	0	0	0	0	0
Clerk	12,304	12,304	9,141	0	0	0	0	0	0
Board of Review	1,600	1,600	1,093	0	0	0	0	0	0
Treasurer	13,271	13,271	12,231	0	0	0	0	0	0
Assessor	17,205	19,303	19,129	0	0	0	0	0	0
Elections	12,600	12,600	1,091	0	0	0	0	0	0
Building and Grounds	15,800	15,800	16,938	0	0	0	0	0	0
Cemetery	11,500	11,500	7,767	0	0	0	0	0	0
Public Safety									
Fire Protection	0	0	0	43,038	43,038	43,038	0	0	0
Public Works									
Highways, Streets and Bridges	2,000	2,000	2,000	0	0	0	0	0	0
Community and Economic Development									
Planning and Zoning	13,000	13,000	0	0	0	0	0	0	0
Recreation and Culture									
Library	2,000	2,000	0	0	0	0	0	0	0
Parks and Recreation	500	500	0	0	0	0	0	0	0
Other Functions	6,753	6,753	3,663	0	0	0	0	0	0
Contingency	10,000	7,902	0	0	0	0	0	0	0
Total Expenditures	156,088	156,088	86,749	43,038	43,038	43,038	0	0	0
Excess (Deficiency) of Revenues Over Expenditures	(91,115)	(91,115)	3,901	0	0	(1,013)	18,470	18,470	19,919
<u>OTHER FINANCING SOURCES(USES)</u>									
Transfers In	0	0	0	0	0	733	0	0	0
Transfers Out	0	0	(733)	0	0	0	0	0	0
Total Other Financing Sources (Uses)	0	0	(733)	0	0	733	0	0	0
Net Change in Fund Balance	(91,115)	(91,115)	3,168	0	0	(280)	18,470	18,470	19,919
<u>FUND BALANCE</u> - Beginning of Year	199,193	199,193	196,109	400	400	400	28,173	28,173	28,173
<u>FUND BALANCE</u> - End of Year	\$ 108,078	\$ 108,078	\$ 199,277	\$ 400	\$ 400	\$ 120	\$ 46,643	\$ 46,643	\$ 48,092

ELLSWORTH TOWNSHIP, LAKE COUNTY  
LUTHER, MICHIGAN

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
YEAR ENDED MARCH 31, 2008

	BALANCE				BALANCE
	4/1/2007	ADDITIONS	DEDUCTIONS		3/31/2008
<u>ASSETS</u>					
Cash					
Money Market Account	\$ 2,358	\$ 707,075	\$ 707,410	\$	2,023
<u>LIABILITIES</u>					
Due to Other Funds	\$ 2,358	\$ 77,297	\$ 77,694	\$	1,961
Due to Other Governmental Units	0	624,907	624,907		0
Due to Other Organizations and Individuals	0	4,871	4,809		62
TOTAL LIABILITIES	\$ 2,358	\$ 707,075	\$ 707,410	\$	2,023

# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
PHONE: 231-775-9789 FAX: 231-775-9749  
www.bcbcpa.com

June 30, 2008

To the Township Board  
Ellsworth Township  
Lake County  
Luther, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ellsworth Township, Lake County, Luther, Michigan as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Ellsworth Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

## 1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

## 2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiencies described above are material weaknesses.



This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

# *Baird, Cotter and Bishop, P.C.*

## CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
PHONE: 231-775-9789 FAX: 231-775-9749  
www.bcbcpa.com

June 30, 2008

### COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Township Board  
Ellsworth Township  
Lake County  
Luther, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ellsworth Township for the year ended March 31, 2008, and have issued our report thereon dated June 30, 2008. Professional standards require that we provide you with the following information related to our audit.

#### Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 24, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Ellsworth Township are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-08. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. No material misstatements were noted.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated June 30, 2008.

### *Other Audit Findings or Issues*

During the course of our audit of the basic financial statements of Ellsworth Township for the year ended March 31, 2008, we noted the following list of items which we feel deserve comment:

#### Budgeting

The budget document should include all items required by PA 621, including the following financial information:

- The actual results from the prior year
- An estimate of the current year results
- The amount of fund balance accumulated through the end of the current year, and the amount expected at the end of the upcoming year, after applying the budgeted receipts and disbursements.

#### Property Tax Administration Fee

The Township has determined that authorized costs of collecting taxes will be repeatedly in excess of revenue generated by the administration fee, but has not formally taken action to write off this loss. We recommend that the Township maintain subsidiary records which reflect property tax administration fee collections and costs, and that the board pass a motion each year to write off the loss.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

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